

Federal Housing Finance Board

§ 985.8

directors in accordance with the requirements for payment of compensation and expenses to Bank chairs as set forth in part 918 of this chapter.

(e) *Indemnification.* (1) The OF board of directors shall indemnify its members, the Managing Director, and other officers and employees of the OF under such terms and conditions as shall be determined by the OF board of directors, *provided that* such terms and conditions are consistent with the terms and conditions of indemnification of directors, officers and employees of the Bank System generally.

(2) The OF board of directors shall adopt indemnification procedures, which shall be supplemented by a contract of insurance.

(f) *Delegation.* The OF board of directors may delegate any of its authority or duties to any employee of the OF in order to enable the OF to carry out its functions.

§ 985.8 General duties of the OF board of directors.

(a) *General—(1) Conduct of business.* Each director shall have the duties prescribed in § 917.2(b) of this chapter, as appropriate.

(2) *Bylaws.* The OF board of directors shall adopt bylaws in accordance with the provisions of § 917.10 of this chapter.

(b) *Meetings and quorum.* The OF board of directors shall conduct its business by majority vote of its members at meetings convened in accordance with its bylaws, and shall hold no fewer than six in-person meetings annually. Due notice shall be given to the Finance Board by the Chair prior to each meeting. A quorum, for purposes of meetings of the OF board of directors, shall be not less than two members.

(c) *Duties regarding COs.* The OF board of directors shall establish policies regarding COs that shall:

(1) Govern the frequency and timing of issuance, issue size, minimum denomination, CO concessions, underwriter qualifications, currency of issuance, interest-rate change or conversion features, call features, principal indexing features, selection and retention of outside counsel, selection of clearing organizations, and the se-

lection and compensation of underwriters for consolidated obligations, which shall be in accordance with the requirements and limitations set forth in paragraph (c)(4) of this section;

(2) Prohibit the issuance of COs intended to be privately placed with or sold without the participation of an underwriter to retail investors, or issued with a concession structure designed to facilitate the placement of the COs in retail accounts, unless the OF has given notice to the board of directors of each Bank describing a policy permitting such issuances, soliciting comments from each Bank's board of directors, and considering the comments received before adopting a policy permitting such issuance activities;

(3) Require all broker-dealers or underwriters under contract to the OF to have and maintain adequate suitability sales practices and policies, which shall be acceptable to, and subject to review by, the Office of Finance;

(4) Require that COs shall be issued efficiently and at the lowest all-in funding costs over time, consistent with:

(i) Prudent risk-management practices, prudential debt parameters, short and long-term market conditions, and the Banks' role as government-sponsored enterprises;

(ii) Maintaining reliable access to the short-term and long-term capital markets; and

(iii) Positioning the issuance of debt to take advantage of current and future capital market opportunities.

(d) *Other duties.* The OF board of directors shall:

(1) Set policies for management and operation of the OF;

(2) Approve a strategic business plan for the OF in accordance with the provisions of § 917.5 of this chapter, as appropriate;

(3) Review, adopt and monitor annual operating and capital budgets of the OF in accordance with the provisions of § 917.8 of this chapter, as appropriate;

(4) Constitute and perform the duties of an audit committee, which to the extent possible shall operate consistent with:

(i) The requirements of § 917.7 of this chapter, and

(ii) The requirements pertaining to audit committee reports set forth in Item 306 of Regulation S-K promulgated by the Securities and Exchange Commission.

(5) Select, employ, determine the compensation for, and assign the duties and functions of a Managing Director of the OF who shall:

(i) Be the chief executive officer for the OF and shall direct the implementation of the OF board of directors' policies;

(ii) Serve as a member of the Directorate of the Financing Corporation, pursuant to section 21(b)(1)(A) of the Act (12 U.S.C. 1441(b)(1)(A)); and

(iii) Serve as a member of the Directorate of the Resolution Funding Corporation, pursuant to section 21B(c)(1)(A) of the Act (12 U.S.C. 1441b(c)(1)(A)).

(6) Review and approve all contracts of the OF;

(7) Have the exclusive authority to employ and contract for the services of an independent, external auditor for the Banks' annual and quarterly combined financial statements;

(8) Select, evaluate, determine the compensation of, and, where appropriate, replace the internal auditor, who may be removed only by vote of the OF board of directors; and

(9) Assume any other responsibilities that may from time to time be delegated to it by the Finance Board.

(e) *No rights created.* Nothing in this part shall create or be deemed to create any rights in any third party.

[65 FR 36300, June 7, 2000, as amended at 67 FR 12855, Mar. 20, 2002; 67 FR 18807, Apr. 17, 2002]

APPENDIX A TO PART 985—EXCEPTIONS TO THE GENERAL DISCLOSURE STANDARDS

A. Related-party transactions. Item 404 of Regulation S-K, 17 CFR 229.404, requires the disclosure of certain relationships and related party transactions. In light of the cooperative nature of the Bank System, related-party transactions are to be expected, and a disclosure of all related-party transactions that meet the threshold would not be meaningful. Instead, the combined annual report will disclose the percent of advances to members an officer of which serves as a Bank director, and list the top ten holders of advances in the Bank System and the top

five holders of advances by Bank, with a further disclosure indicating which of these members had an officer that served as a Bank director.

B. Biographical information. The biographical information required by Items 401 and 405 of Regulation S-K, 17 CFR 229.401 and 405, will be provided only for the members of the Board of Directors of the Finance Board, Bank presidents, chairs and vice chairs, and the directors and Managing Director of the OF.

C. Compensation. The information on compensation required by Item 402 of Regulation S-K, 17 CFR 229.402, will be provided only for Bank presidents and the Managing Director of the OF. Since stock in each Bank trades at par, the Office of Finance will not include the performance graph specified in Item 402(1) of Regulation S-K, 17 CFR 229.402(1).

D. Submission of matters to a vote of stockholders. No information will be presented on matters submitted to shareholders for a vote, as otherwise required by Item 4 of the SEC's form 10-K, 17 CFR 249.310. The only item shareholders vote upon is the annual election of directors.

E. Exhibits. The exhibits required by Item 601 of Regulation S-K, 17 CFR 229.601, are not applicable and will not be provided.

F. Per share information. The statement of financial information required by Items 301 and 302 of Rule S-K, 17 CFR 229.301 and 302, is inapplicable because the shares of the Banks are subscription capital that trades at par, and the shares expand or contract with changes in member assets or advance levels.

G. Beneficial ownership. Item 403 of Rule S-K, 17 CFR 229.403, requires the disclosure of security ownership of certain beneficial owners and management. The combined financial report will provide a listing of the ten largest holders of capital stock in the Bank System and a listing of the five largest holders of capital stock by Bank. This listing will also indicate which members had an officer that served as a director of a Bank.

PART 987—BOOK-ENTRY PROCEDURE FOR CONSOLIDATED OBLIGATIONS

Sec.

987.1 Definitions.

987.2 Law governing rights and obligations of Banks, Finance Board, Office of Finance, United States and Federal Reserve Banks; rights of any Person against Banks, Finance Board, Office of Finance, United States and Federal Reserve Banks.

987.3 Law governing other interests.

987.4 Creation of Participant's Security Entitlement; security interests.

987.5 Obligations of Banks and the Office of Finance; no Adverse Claims.